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RUEHDK/AMEMBASSY DAKAR 3003

RUEHRL/AMEMBASSY BERLIN 1799

RUEHKM/AMEMBASSY KAMPALA 0064

RUEHNR/AMEMBASSY NAIROBI 0066

RUEHGV/USMISSION GENEVA 2534

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STATE PASS TO USAID FOR J.HARMON AND L.DOBINS

STATE PASS TO NSC FOR SENIOR AFRICA DIRECTOR M.GAVIN

E.O. 12958: N/A

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SUBJECT: ZIMBABWE'S FISCAL TRANSPARENCY

REF: STATE 1923

¶1. The USG provides no direct funding to Zimbabwe's central government. But USG funding does support provision of assistance to specific elements of the Government of Zimbabwe (GOZ). This includes substantial assistance under the PEPFAR program to government-led efforts combating HIV/AIDS, assistance through an NGO to the Prime Minister's office, assistance through the UNDP to the effort to reform the constitution, and assistance through partners to the national legislature. Although assistance to Zimbabwe is subject to restrictions under U.S. legislation, all activities are covered by existing authorities or appropriate waivers.

¶2. Formal dollarization of Zimbabwe's economy in 2009 significantly improved the GOZ's fiscal transparency.

Now that the Zimbabwe dollar no longer circulates, the Reserve Bank of Zimbabwe (RBZ) cannot finance GOZ expenditures, thus forcing the Ministry of Finance to operate on a cash basis. This has eliminated the ad-hoc fiscal habits that previously made GOZ spending almost entirely opaque.

¶3. The demise of the Zimdollar also ended the large-scale quasi-fiscal activities of the RBZ, which in some years has exceeded the GOZ's official budget. While the RBZ did direct financial support to some state-owned enterprises in 2009, this amounted to a small fraction of total GOZ expenditure. Furthermore, the GOZ has reported to the International Monetary Fund (IMF) the details of this activity, which has since ceased.

¶4. The GOZ's budget is available to the public. Following the Finance Minister's annual presentation of the budget to Parliament, the GOZ publishes estimates of expenditure by agency, broken down into major categories. The published budget also includes revenue estimates by source. Daily newspapers also publish the budget estimates, and the Ministry of Finance posts them on its website.

¶5. As long as the GOZ is confined to cash budgeting, the published budget serves as a reliable upper bound for actual expenditure. Revenue estimates in the 2010 budget may be somewhat optimistic, but the GOZ's interim public reports on revenue performance over the

course of the year are likely to be reliable. Management of revenue flows through state-owned enterprises remains a concern, however. The Ministry of Finance does not have direct control over all enterprises in which the GOZ owns shares, and financial reports published by these companies are not always complete, timely, or reliable.

¶6. Beginning in March 2009, Zimbabwe's transitional government has worked to restore order to public-sector expenditure. The Ministry of Finance, in particular, has been broadly successful in re-asserting formal control over the work of the RBZ. In addition, the GOZ has had external support that has improved fiscal transparency. This has included technical support from the IMF, which resumed in May 2009. Additionally, from the African Development Bank and through a multi-donor trust fund administered by the World Bank, the GOZ receives technical support to improve its public financial management system. These efforts include installation of new budgeting software and staff training.

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